

# INCLUSIVE BUSINESS MODELS FOR LOCAL ECONOMIC DEVELOPMENT

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# What is an Inclusive Business Model?

- “Models that aim to include *poor people* into value chains as producers, employees or consumers in ways that are both equitable and sustainable” (UNDP)
- Inclusiveness is determined by the level of cooperation between *commercial partner* and its workers, suppliers, customers and its operating environment

# Dimensions of inclusiveness

- Internal inclusiveness
  - ▣ Ownership: land, assets, produce
  - ▣ Voice: decision taking power
  - ▣ Risk: financial, production
  - ▣ Rewards: financial, social
- External inclusiveness / linkages
  - ▣ Input
  - ▣ Market
  - ▣ Labour
- Scalability
  - ▣ Internal growth potential
  - ▣ Sustainability
  - ▣ Replicability

# Why Inclusive Business Models?

## Drivers for stakeholders

### □ Agribusiness

- ▣ Access to land/crops
- ▣ Corporate Social Responsibility
- ▣ Favourable financing (government/DFI)
- ▣ Development opportunities for historically disadvantaged people

### □ Beneficiaries

- ▣ Access to knowledge, market, financing, inputs
- ▣ Government guidelines

# The Models



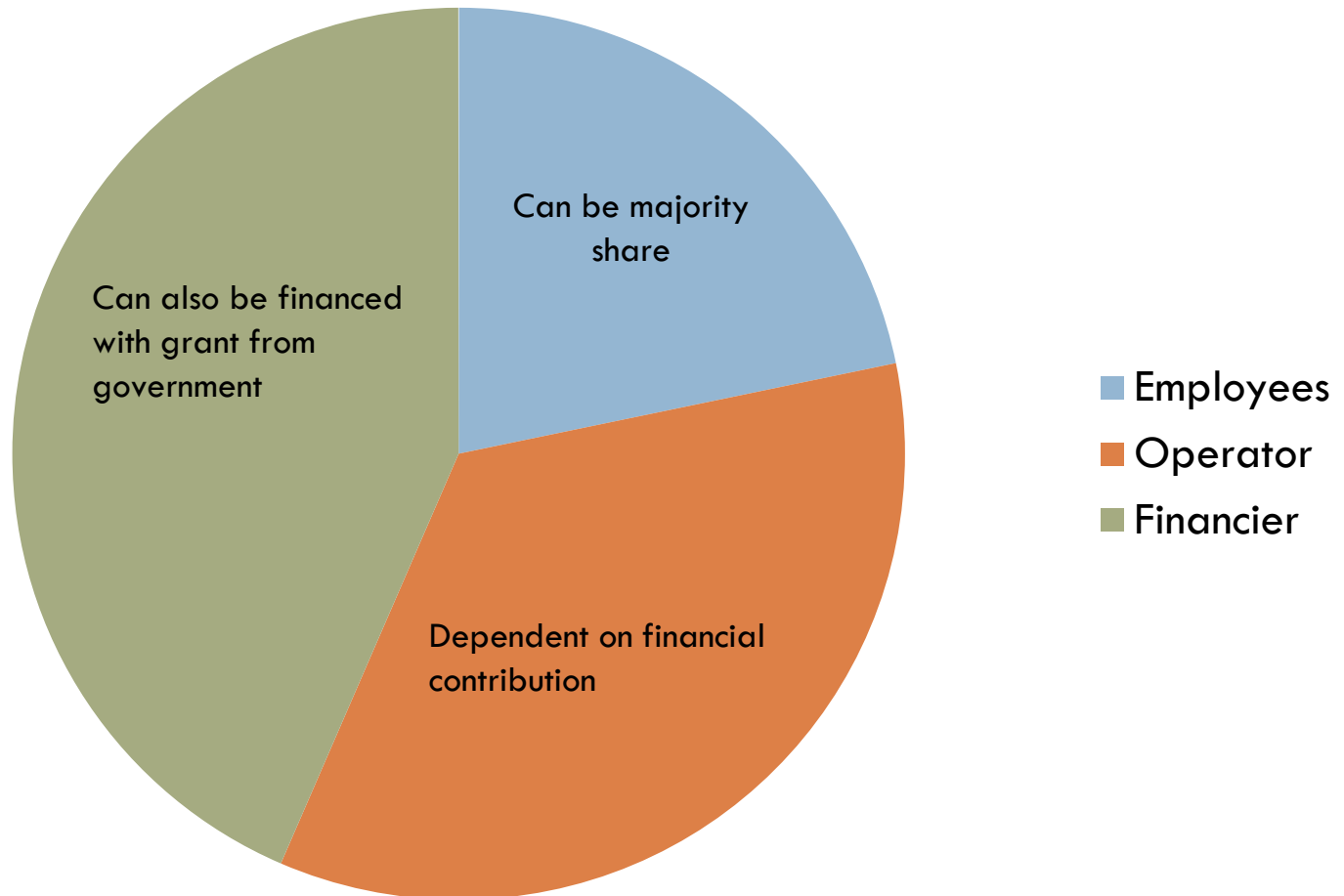
- ❑ Employee Equity Share Scheme
- ❑ Outgrower
- ❑ Mentorship
- ❑ Cooperative
- ❑ Community Private Partnership
- ❑ Lease Management
- ❑ Cluster

# Employee Equity Share Scheme

- The model:
  - ▣ Employees hold equity share in commercial farm entity
  - ▣ Operator/manager (and financier) other shareholders
  - ▣ Internal inclusiveness mainly on paper
  
- Characteristics of cases:
  - ▣ High-value, capital intensive crops
  - ▣ Both new and existing farms
  - ▣ Funding is important driver
  - ▣ Successful if operator is passionate about employee development

# Employee Equity Share Scheme

## Equity share in Inclusive Business Entity



# Employee Equity Share Scheme

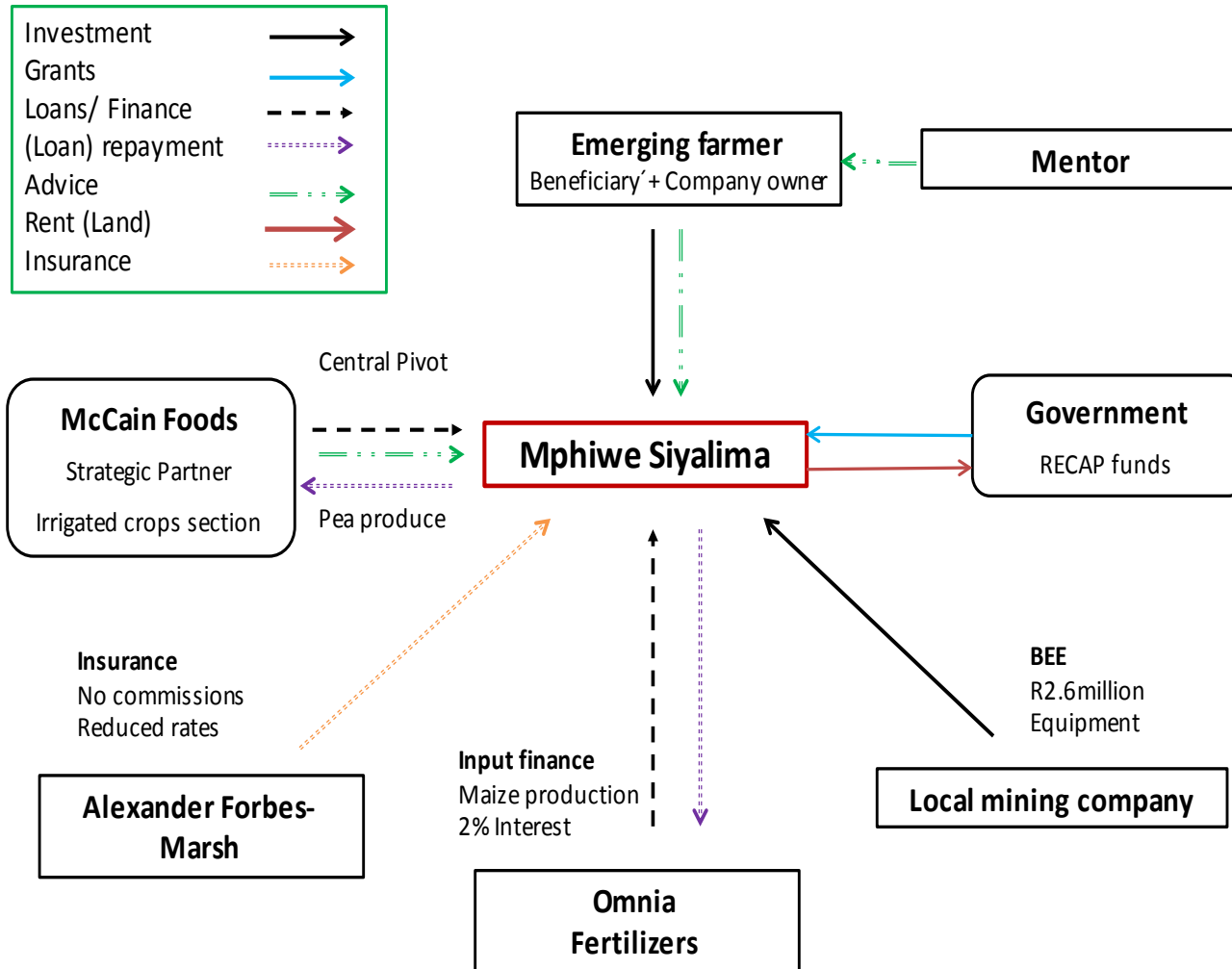
- Inclusiveness
  - ▣ Internal inclusiveness is shared due to share in inclusive business, dependent on size of equity share
  - ▣ Linkages with local markets weak
  - ▣ Easy to replicate, but highly dependent on operator
- Main issues
  - ▣ Who is in and how to get out
- LED impact:
  - ▣ Mostly through employment



# Outgrower

- The model:
  - ▣ Landholder produces crops for agri-business on pre-agreed supply contract
  - ▣ Mostly involves financing of inputs
  - ▣ Market access for small and emerging farmers
  
- Case characteristics
  - ▣ Wide range of products
  - ▣ Driven by need for produce supply
  - ▣ Part of farming activities mix

# Outgrower



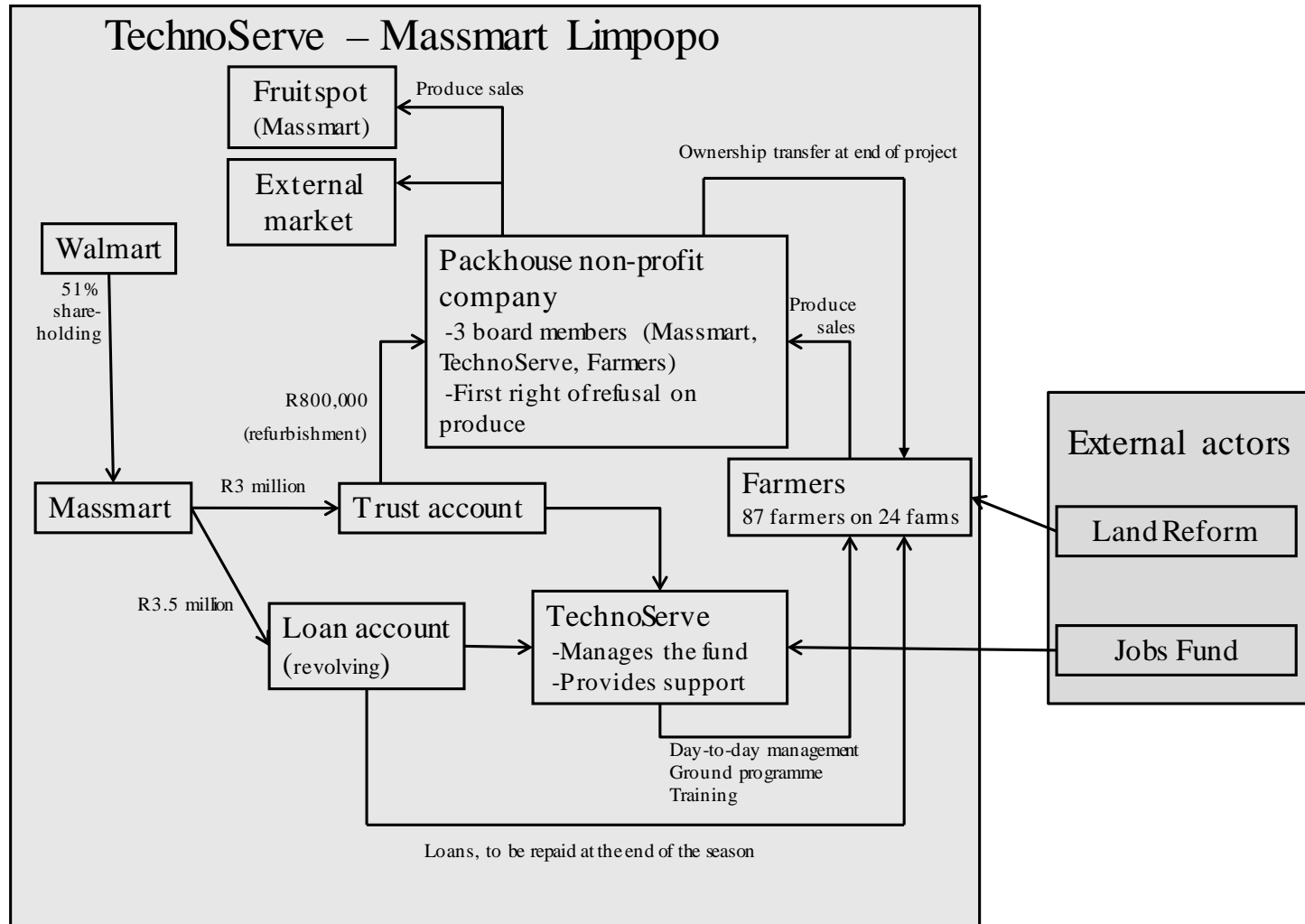
# Outgrower

- Inclusiveness
  - ▣ High degree of ownership for individual farmer
  - ▣ But little voice and high risk
  - ▣ Easy to scale and replicate
- Main issues
  - ▣ Fair pricing to prevent indebtedness
- LED impact:
  - ▣ High in numbers
  - ▣ Dependent on large number of variables

# Mentorship

- The model:
  - ▣ New/emerging farmer trained by agribusiness / NGO to become self-sustainable
  - ▣ Mentorship on technical, financial and managerial skills
  - ▣ Can include access to finance
  
- Case characteristics
  - ▣ New farmers, benefitting from government policy
  - ▣ Emerging farmers assisted by NGO
  - ▣ Both cash crops and staples

# Mentorship



# Mentorship

- Inclusiveness
  - ▣ High responsibility and ownership of farmers
  - ▣ Risk reduction through mentor involvement
- Main issue
  - ▣ Sustainability after mentor retreats
- LED impact
  - ▣ Dependent on farmer's drive

# Cooperatives

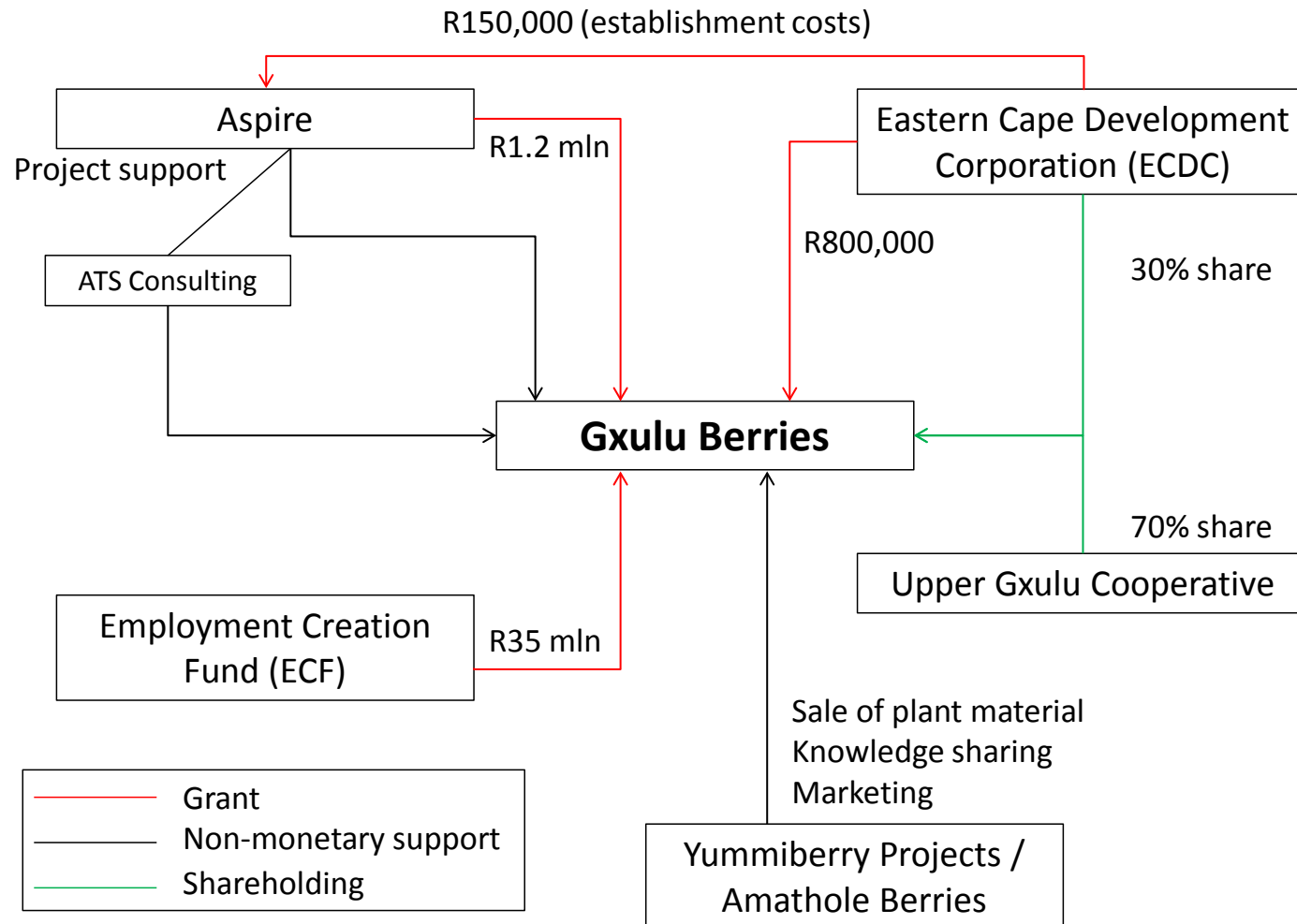
## □ The model:

- “an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise”
- Cooperative members are active in agricultural processes
- Arms-length assistance from commercial partners

## □ Case characteristics:

- Land ownership by poor people
- Non-subsistence crops
- To gain access to market and financing
- Can be combined with other models

# Cooperatives





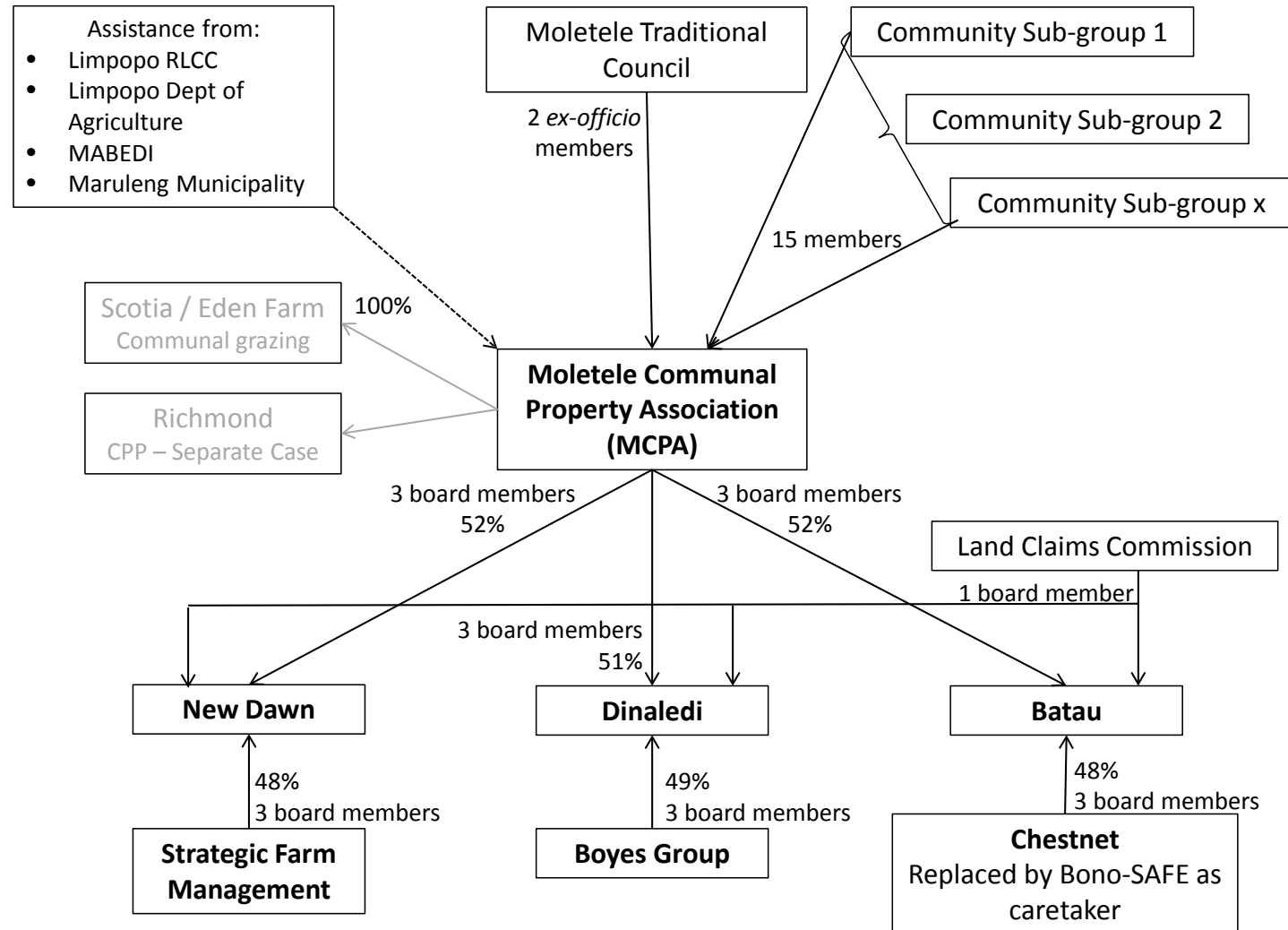
# Cooperatives

- Inclusiveness
  - ▣ High level of inclusiveness, usually with high risk
  - ▣ But individual risk reduced
- Main issue
  - ▣ Democratic governance can be complex and slow
  - ▣ Free-rider problem
- LED impact:
  - ▣ High due to large number of participants and geographic concentration

# Joint Venture

- The model:
  - ▣ Operating company held by landholding community and agribusiness partner
  - ▣ Community provides land and financing from grants
  - ▣ Agri-business partner provides financing, expertise and market access
  
- Case characteristics:
  - ▣ Land restitution projects
  - ▣ Existing farms with high value crops
  - ▣ Driven by need for access to produce

# Joint Ventures



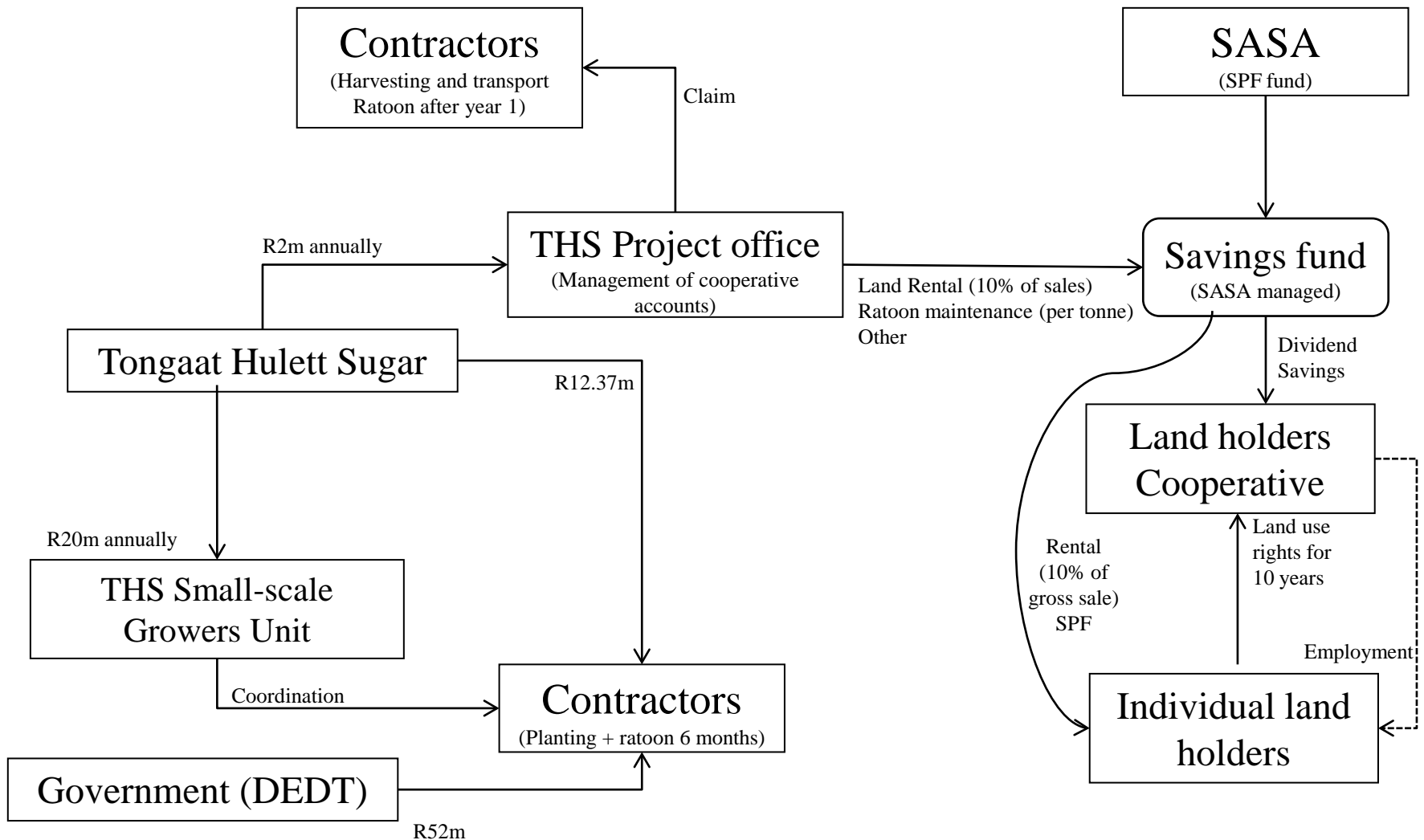
# Joint Ventures

- Inclusiveness
  - ▣ Shared ownership, risk, benefits and negotiating power BUT
  - ▣ Power inequality between partners
- Main issues
  - ▣ Government funding dependency
  - ▣ Lack of inclusiveness driver
- LED impact:
  - ▣ Limited due to high level of failure and large number of geographically dispersed community members

# Lease Management

- The model:
  - ▣ Landholder (individual or community) leases land to agribusiness
  - ▣ Only passive involvement, benefits limited to rental
  - ▣ Several sub-models: landholder cooperative, CPP, sale-and-leaseback
  
- Case characteristics:
  - ▣ Cash crops
  - ▣ Driven by agri-business need for resources

# Lease management



# Lease management

- Inclusiveness
  - ▣ All operational control and risk with agri-business partner
  - ▣ Can include sharing of profits
- Main issues
  - ▣ Long-term contracts takes land away from community
  - ▣ No involvement leaves community passive
- LED impact
  - ▣ Very limited, but option for 'free' income

# Cluster model

- The model:

- Integration of numerous links in the value chain, including small/emerging farmers
- Shared risk among stakeholders

- LED impact:

- Theoretically high due to high number of active participants in geographically limited area
- No successful case



# Conclusions

- Many combinations of models with complex structures
- LED and inclusiveness: Chances of employment, economic benefits, market access and skills development
  - ▣ LED and inclusiveness, both model and case dependent
  - ▣ Different impacts per model
  - ▣ Much depends on driver behind a project: economic gain or empowerment?
- Overall impact sometimes very limited BUT even small benefits make a big impact in severely impoverished areas